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# FLOOD INSURANCE

# Challenges Facing the National Flood Insurance Program

Statement for the Record by
JayEtta Z. Hecker, Director
Physical Infrastructure

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# Highlights

Highlights of GAO-03-606T, testimony for the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

Floods have been, and continue to be, the most destructive natural hazard in terms of economic loss to the nation. The National Flood Insurance Program is a key component of the federal government's efforts to minimize the damage and financial impact of floods. The program identifies flood-prone areas of the country, makes flood insurance available in the nearly 20,000 communities that participate in the program, and encourages flood-plain management efforts. Since its inception in 1969, the National Flood Insurance has provided $12 billion in insurance claims to owners of flood-damaged properties, and its building standards are estimated to save $1 billion annually. The program has been managed by the Federal Emergency Management Agency, but along with other activities of the agency, it was recently placed into the Department of Homeland Security.

GAO has issued a number of reports on the flood insurance program and was asked to discuss the current challenges to the widespread success of the program.

www.gao.gov/cgi-bin/getrpt?GAO-03-606T.

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April 1, 2003

# FLOOD INSURANCE

## Challenges Facing the National Flood Insurance Program

## What GAO Found

The program faces the following challenges in operating the program effectively and protecting property owners from loss from floods.

- **Improving information on the program's financial condition.** Cash-based budgeting, which focuses on the amount of funds that go in and out of a program in a fiscal year, obscures the program's costs and does not provide information necessary to signal emerging problems, such as shortfalls in funds to cover the program's risk exposure. Accrual-based budgeting better matches revenues and expenses, recognizes the risk assumed by the government, and has the potential to overcome the deficiencies of cash-based budgeting.
- **Reducing losses to the program resulting from policy subsidies and repetitive loss properties.** The program has lost money and is not actuarially sound because about 29 percent of the policies in force are subsidized but appropriations are not provided to cover the subsidies. Owners of structures built before the flood zone was included in the program pay reduced premiums that represent only about 35-40 percent of the true risk premium. Further, repetitive loss properties—properties with two or more losses in a 10-year period—add to program losses as they represent 38 percent of claims losses but account for 2 percent of insured properties.
- **Increasing property owner participation in the program.** The administration has estimated that less than 50 percent of eligible properties in flood plains participate in the program. Additionally, even when the purchase of insurance is mandatory, the extent of noncompliance with the mandatory purchase requirement is unknown and remains a concern.

Actions have been initiated or proposed by the administration or in the Congress to address some of the challenges. However, the affect of some actions on the program is not clear. For example, reducing subsidies may cause some policyholders to cancel their policies, reducing program participation and leaving them vulnerable to financial loss from floods. Further, placement of the program within the Department of Homeland Security has the potential to decrease the attention, visibility, and support the program receives.

Source: FEMA Photo Library.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to submit this statement for the record on the National Flood Insurance Program and challenges to its success. Floods have been, and continue to be, the most destructive natural hazard in terms of economic loss to the nation. The flood insurance program, which has been administered by the Federal Emergency Management Agency (FEMA), has been a key component of the federal government's efforts to minimize the impact of floods and to provide flood-related disaster relief. For example, the program has been credited by the administration with saving a billion dollars annually by improving flood plain management and setting building standards—such as one to elevate properties—that have reduced potential losses. Additionally, the approximately $12 billion paid in insurance claims from 1969 through 2002 to policyholders has been funded primarily by policyholders' premiums, thus saving the federal government from paying all damage-related expenses in the aftermath of floods.

Nevertheless, the flood insurance program faces challenges. In reports published within the last few years, FEMA's Inspector General and we have identified a number of concerns with the program's financial viability and with the extent to which flood insurance policies have been purchased for structures in flood-prone areas. In addition, the administration noted in its fiscal year 2004 budget request that the program is only moderately effective; it and the Congress have proposed measures to improve the program's effectiveness. With the creation of the Department of Homeland Security (DHS) and the inclusion of FEMA's functions within it, the program—along with its associated problems and improvement measures—has now become the responsibility of the new department.

My statement today is based primarily on our past work and on preliminary results from ongoing work that we are conducting for the Subcommittee examining flood zone remapping efforts. I will provide a perspective on (1) the program's presentation of financial information, (2) the major causes of losses in the program, (3) the extent of property owner participation in the program, and (4) recent actions taken or proposed to improve the program. In summary:

- The flood insurance program's use of cash-based budgeting may present misleading information on the program's financial condition. Cash-based budgeting, which focuses on the amount of funds into and out of the program in a fiscal year, can obscure the program's costs because the time between the extension of insurance, the receipt of premiums, the occurrence of insured events, and payment of claims may extend over several fiscal years. Further, this form of budgeting may not provide the information necessary to signal emerging problems, such as shortfalls in funds to cover the program's risk exposure. The use of accrual-based budgeting—which, among other things, better matches revenues and expenses and recognizes the liability for future insurance claim payments—has the potential to overcome a number of the deficiencies in cash-based budgeting.

- Subsidies on certain policies and so-called repetitive loss properties—properties that have experienced two or more losses greater than $1,000 in a 10-year period—have been the principal causes of the flood insurance program's long-term losses. About 29 percent of all policies in force are subsidized, and on average the premiums for these policies are only about 35-40 percent of—and about $500 million annually less than—the true risk premium for those properties. Additionally, about 38 percent of all program claims have been the result of repetitive loss properties, at a cost of about $200 million annually.

- Flood insurance program participation—the percentage of structures in designated flood zones that are insured—may be low, resulting in many property owners being at risk of financial loss due to flooding. The administration estimates that less than half of the eligible properties in flood plains participate in the program. Further, even when the purchase of flood insurance is mandatory—properties in flood zones with mortgages from federally regulated lenders are required to have flood insurance—the extent of noncompliance with this requirement is unknown and remains a concern.

- Recent actions have been taken or proposed by the administration and the Congress that may affect the program. These include actions to eliminate the premium subsidy on properties that are second homes or vacation properties, to phase out coverage or begin charging full and actuarially based rates for repetitive loss properties, and to undertake an expanded program to update flood maps upon which the program bases its insurance rates and mandatory purchase requirements. While these actions will address some of the challenges in the program, certain actions may have adverse implications—for example, increasing premiums to subsidized policyholders may cause some to cancel their insurance and remapping flood zones may bring into the program more properties that could be subsidized. Moreover, action has not been taken to move the program to accrual-based budgeting. Finally, the placement of the program—which is not directly security related—into the new Department of Homeland Security may affect the amount of attention the program receives as it pursues nonsecurity- related goals in a department that is under tremendous pressure to succeed in its primary mission of securing the homeland.

Before I discuss these issues in greater detail, I would like to briefly explain the National Flood Insurance Program and its importance to the federal flood management effort.

## The National Flood Insurance Program Has Sought to Minimize Flood-Related Losses

In 1968, in recognition of the increasing amount of flood damage, the lack of readily available insurance for property owners, and the cost to the taxpayer for flood-related disaster relief, the Congress enacted the National Flood Insurance Act (P.L. 90-448) that created the National Flood Insurance Program. Since its inception, the program has sought to minimize flood-related property losses by making flood insurance available on reasonable terms and encouraging its purchase by people who need flood insurance protection—particularly those living in flood-prone areas known as special flood hazard areas. The program identifies flood-prone areas in the country, makes flood insurance available to property owners in communities that participate in the program,[1] and encourages floodplain management efforts to mitigate flood hazards. The program has paid about $12 billion in insurance claims, primarily from policyholder premiums that otherwise would, to some extent, have increased taxpayer-funded disaster relief.

Under the program, flood insurance rate maps (FIRM) have been prepared to identify special flood hazard areas—also known as 100-year floodplains—that have a 1-percent or greater chance of experiencing flooding in any given year. For a community to participate in the program, any structures built within a special flood hazard area after the FIRM was completed must be built according to the program's building standards that are aimed at minimizing flood losses. A key component of the program's building standards that must be followed by participating communities is a requirement that the lowest floor of the structure be elevated to or above the base flood level—the highest elevation at which there is a 1-percent chance of flooding in a given year. The administration has estimated that the program's standards for new construction are saving about $1 billion annually in flood damage avoided.

[1]Nearly 20,000 communities across the United States currently participate in the program, including Puerto Rico and the Virgin Islands.

When the program was created, the purchase of flood insurance was voluntary. To increase the impact of the program, however, the Congress amended the original law in 1973 and again in 1994 to require the purchase of flood insurance in certain circumstances. Flood insurance was required for structures in special flood hazard areas of communities participating in the program if (1) any federal loans or grants were used to acquire or build the structures or (2) the structures are secured by mortgage loans made by lending institutions that are regulated by the federal government. Owners of properties with no mortgages or properties with mortgages held by unregulated lenders were not, and still are not, required to purchase flood insurance, even if the properties are in special flood hazard areas.

The National Flood Insurance Reform Act of 1994 that amended the program also reinforced the objective of using insurance as the preferred mechanism for disaster assistance. The act expanded the role of federal agency lenders and regulators in enforcing the mandatory flood insurance purchase requirements. It prohibited further flood disaster assistance for any property where flood insurance was not maintained even though it was mandated as a condition for receiving prior disaster assistance. Regarding the prohibition on further flood disaster assistance, the act prohibits borrowers who have received certain disaster assistance, and then failed to obtain flood insurance coverage, from receiving future disaster aid.

FEMA's Federal Insurance and Mitigation Administration has been responsible for managing the flood insurance program. However, the Homeland Security Act of 2002[2] transferred this responsibility to the Department of Homeland Security (DHS). As part of the largest reorganization of the federal government in over 50 years, the legislation combined about 170,000 federal employees, 22 agencies, and various missions—some that have not traditionally been considered security related—into the new department. FEMA's responsibilities, including the flood insurance program, were placed in their entirety into DHS, effective March 1, 2003. Responsibility for the flood insurance program now resides in DHS's Emergency Preparedness and Response Directorate.

[2] P.L. 107-296, Nov. 25, 2002.

## Cash-Basis Budgeting Does Not Provide All Needed Information on Flood Insurance Program's Financial Condition

Historically, federal government programs, including the National Flood Insurance Program, report income and expenditures on a cash basis—income is recorded when received and expenditures are recorded when paid. Over the years, the annual reporting of the program's premium revenues and its claims losses and expenses has shown wide fluctuations in cash-based operating net income or losses. For example, for fiscal year 2002, the program had a net income of $755 million, but in the previous year it had a net loss of $518 million. For the life of the program, the program has shown a net loss of $531 million. The program has, on numerous occasions, borrowed from the U.S. Treasury to fund claims losses.

This "cash-based" budgeting, although useful for many government programs, may present misleading financial information on the flood insurance program. In 1997 and again in 1998, [3] we reported that cash-based budgeting has shortcomings for federal insurance programs. Specifically, its focus on single period cash flows can obscure the program's cost to the government and thus may (1) distort the information presented to policymakers, (2) skew the recognition of the program's economic impact, and (3) cause fluctuations in the deficit unrelated to long-term fiscal balance. The focus on annual cash flows—the amounts of funds into and out of a program during a fiscal year—may not reflect the government's cost because the time between the extension of the insurance, the receipt of premiums, the occurrence of an insured event, and the payment of claims may extend over several fiscal years.

For the flood insurance program, cash-based budgeting may not provide the information necessary to signal emerging problems, make adequate cost comparisons, or control costs. For example, under its current practices, the program provides subsidized policies without explicitly recognizing the potential cost to the government. Under current policy, the Congress has authorized subsidies to be provided to a significant portion of the total policies in force, without providing annual appropriations to cover the potential cost of these subsidies. The program, as designed, does not charge a premium sufficient to cover its multiyear risk exposure. As a result, not only is the program actuarially unsound, but also the size of the shortfall is unknown. This is a concern that the administration has

[3] U.S. General Accounting Office, *Budget Issues: Budgeting for Federal Insurance Programs*, GAO/AIMD-97-16 (Washington, D.C.: Sept. 30, 1997) and *Budget Issues: Budgeting for Federal Insurance Programs*, GAO/T-AIMD-98-147 (Washington, D.C.: Apr. 23, 1998).

recognized and identified as a financial challenge to the flood insurance program.

The use of accrual-based budgeting for the flood insurance program has the potential to overcome a number of the deficiencies in cash-based budgeting. Accrual-based budgeting (1) recognizes transactions or events when they occur, regardless of cash flows; (2) matches revenues and expenses whenever it is reasonable and practicable to do so; (3) recognizes the cost for future insurance claim payments when the insurance is extended; and (4) provides a mechanism for establishing reserves to pay those costs. In short, because of the time lag between the extension of an insurance commitment, the collection of premiums, and the payment of claims, measuring the financial condition of the flood insurance program by comparing annual premium income and losses creates a budgetary distortion. That distortion, together with the misinformation it conveys, could be reduced or eliminated by accrual-based budgeting.

In our 1997 report, we pointed out that developing accrual-based budgets would be challenging, requiring the development of models to generate reasonably reliable cost estimates of the risks assumed by federal insurance programs. Nevertheless, the potential benefits to the flood insurance program, as well as other federal insurance programs, warrant the effort to develop these risk-assumed cost estimates. We suggested that the Congress consider encouraging the development and subsequent reporting of annual risk-assumed cost estimates for all federal insurance programs. At this time, the flood insurance program is still using cash-based budgeting for reporting its financial performance. We continue to believe that the development of accrual-based budgets for the flood insurance program would be a valuable step in developing a more comprehensive approach for reporting on the operations and real costs of this program.

## Policy Subsidies and Payments for Repetitive Losses Contribute to Program Losses

The National Flood Insurance Program has raised financial concerns because, over the years, it has lost money and at times has had to borrow funds from the U.S. Treasury.[4] Two reasons—policy subsidies and payments for repetitive losses—have been consistently identified in our past work and by FEMA to explain financial challenges in the National Flood Insurance Program. First, the flood insurance program has sustained losses, and is not actuarially sound, largely because many policies in the program are subsidized. The Congress authorized the program to make subsidized flood insurance rates available to owners of structures built before a community's FIRM was prepared.[5] For a single-family pre-FIRM property, subsidized rates are available for the first $35,000 of coverage, although any insurance coverage above that amount must be purchased at actuarial rates. These pre-FIRM structures are generally more likely to sustain flood damage than later structures because they were not built according to the program's building standards. The average annual premium for a subsidized policy is $637, representing about 35-40 percent of the true risk premium for these properties.

According to flood insurance program officials, about 29 percent of the 4.4 million policies in force are currently subsidized. Although this percentage of subsidized policies is substantially lower than it was in the past, it still results in a significant reduction in revenues to the program. Program officials estimate that the total premium income from subsidized policyholders is currently about $500 million per year less than it would be if these rates had been actuarially based and participation remained the same. Originally, funds to support subsidized premiums were appropriated for the flood insurance program; however, since the mid-1980s no funds have been appropriated, and the losses resulting from subsidized policies must be borne by the program.

As we reported in July 2001,[6] increasing the premiums charged to subsidized policyholders to improve the program's financial health could have an adverse impact. Elimination of the subsidy on pre-FIRM structures would cause rates on these properties to rise, on average, to more than twice the current premium rates. Program officials estimate that

[4]At this time, all funds borrowed from the U.S. Treasury have been repaid.

[5]Owners of post-FIRM structures pay actuarial rates for flood insurance.

[6]U.S. General Accounting Office, *Flood Insurance: Information on the Financial Condition of the National Flood Insurance Program*, GAO-01-992T (Washington, D.C.: July 19, 2001).

elimination of the subsidy would result in an annual average premium of about $1,300 for pre-FIRM structures. This would likely cause some pre-FIRM property owners to cancel their flood insurance.[7] Cancellation of policies on these structures—which are more likely to suffer flood loss—would in turn increase the likelihood of the federal government having to pay increased costs for flood-related disaster assistance to these properties. The effect on the total federal disaster assistance costs of phasing out subsidized rates would depend on the number of policyholders who would cancel their policies and the extent to which future flood disasters affecting those properties occurred. Thus, it is difficult to estimate whether the increased costs of federal disaster relief programs would be less than, or more than, the cost of the program's current subsidy.

In addition to revenue lost because of subsidized policies, significant costs to the program result from repetitive loss properties. According to FEMA, about 38 percent of all claims historically, and about $200 million annually, represent repetitive losses—properties having two or more losses greater than $1,000 within a 10-year period. About 45,000 buildings currently insured under the program have been flooded on more than one occasion and have received flood insurance claims payments of $1,000 or more for each loss. Over the years, the total cost of these multiple-loss properties to the program has been about $3.8 billion.

Although repetitive loss properties represent about one-third of the historical claims, these properties make up a small percentage of all program policies. A 1998 study by the National Wildlife Federation noted that repetitive loss properties represented only 2 percent of all properties insured by the program, but they tended to have damage claims that exceeded the value of the insured structure and most were concentrated in special flood hazard areas. For example, nearly 1 out of every 10 repetitive loss homes has had cumulative flood loss claims that exceeded the value of the house. Furthermore, over half of all nationwide repetitive loss property insurance payments had been made in Louisiana and Texas. About 15 states accounted for 90 percent of the total payments made for repetitive loss properties.

[7] Owners of pre-FIRM properties required to maintain flood insurance (i.e. properties with mortgages made or held by federally regulated lending institutions) would not be able to cancel their policies.

## Participation in the Program May Be Low

Not only does the National Flood Insurance Program face challenges with its financial condition, but also in achieving one of the purposes for which it was created—to make flood insurance the mechanism for property owners to cover flood losses. Participation rates—the percentage of structures in special flood hazard areas that are insured—provide a measure to indicate the degree to which the owners of properties vulnerable to flooding are protected from financial loss through insurance, the financial risk to the government from flood-related disaster assistance is decreasing, and the program is obtaining high levels of premium income. The rate of participation in the program, however, may be low. In its fiscal year 2004 budget request, the administration noted that less than half of the eligible properties in flood areas participate in the program, a participation rate that was significantly lower than the nearly 90 percent participation rate for wind and hurricane insurance in at-risk areas.

No comprehensive data are available to measure nationwide participation rates. However, various studies have identified instances where low levels of participation existed. For example:

- A 1999 DeKalb County, Georgia, participation study determined that of over 17,000 structures in the special flood hazard areas, about 3,100—18 percent—had flood insurance.
- A 1999 FEMA post-disaster study of 11 counties in Vermont found that 16 percent of homes sampled in the special flood hazard areas had flood insurance.
- A 1999 study by the Strategic Advocacy Group of two counties in Kentucky that had experienced flood disasters found that flood insurance was in force for 52 percent of homes mortgaged since 1994 and was in force for 30 percent of homes mortgaged before 1994.
- An August 2000 FEMA Inspector General study that noted that statistics from North Carolina showed that of about 150,000 structures in special flood hazard areas, 33 percent were covered by flood insurance.

FEMA estimates that one-half to two-thirds of those structures in special flood hazard areas do not have flood insurance coverage, because the uninsured owners either are not aware that homeowner’s insurance does not cover flood damage or do not perceive the serious flood risk to which they are exposed.

One area of flood insurance participation that should not be of concern, yet is, are those properties for which the purchase of flood insurance is mandatory. Flood insurance is required for properties located in flood-prone areas of participating communities for the life of mortgage loans made or held by federally regulated lending institutions, guaranteed by federal agencies, or purchased by government-sponsored enterprises.[8] No definitive data exist on the number of mortgages meeting these criteria; however, according to program officials, most mortgages made in the country meet the criteria, and for those in a special flood hazard area, the property owners would have to purchase and maintain flood insurance over the life of the loan.

The level of noncompliance with this mandatory purchase requirement is unknown. As we reported in June 2002,[9] federal banking regulators and government-sponsored enterprises believe noncompliance is very low on the basis of their bank examinations and compliance reviews. Conversely, flood insurance program officials view noncompliance with the mandatory purchase requirement to be significant, based on aggregate statistics and site-specific studies that indicate that noncompliance is occurring. Neither side, however, is able to substantiate its differing claim with statistically sound data that provide a nationwide perspective on noncompliance.

Data we collected and analyzed for our June 2002 report help address some concerns with the issue of noncompliance, but the issue remains unresolved. We analyzed available flood insurance, mortgage purchase, and flood zone data to determine whether noncompliance was a concern at the time of loan origination. Our analysis of mortgage and insurance data for 471 highly flood-prone areas in 17 states showed that, for most areas, more new insurance policies were purchased than mortgages issued, which suggests noncompliance was not a problem in those areas at the time of loan origination.

However, data to determine whether insurance is retained over the life of loans are unavailable, and this issue remains unresolved. There are indications that some level of noncompliance exists. For example, an August 2000 study by FEMA's Office of Inspector General examined

[8]A government-sponsored enterprise is a privately owned, federally chartered corporation that serves a public purpose.

[9]U.S. General Accounting Office, *Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown*, GAO-02-396 (Washington, D.C.: June 21, 2002).

noncompliance for 4,195 residences in coastal areas of 10 states and found that 416—10 percent—were required to have flood insurance but did not. Flood insurance program officials continue to be concerned with required insurance policy retention and are working with federal banking regulatory organizations and government-sponsored enterprises to identify actions that can be taken to better ensure borrowers are required to renew flood insurance policies annually.

## The Administration and the Congress Have Proposed and Initiated Actions to Improve the Program

The administration and the Congress have recognized the challenges facing the flood insurance program and have proposed actions to improve it. These actions include the following:

- *Reducing or eliminating subsidies for certain properties.* In the fiscal year 2004 budget request, the administration proposed ending premium subsidies for second homes and vacation properties. According to flood insurance program officials, this change would affect 30 percent of the properties currently receiving subsidized premiums and would increase revenue to the program by $200 million annually. Additionally, program officials plan to increase the rates on all subsidized properties by about 2 percent in May 2003.

- *Changing premium rates for repetitive loss properties.* Two bills—H.R. 253 and H.R. 670—have been introduced to amend the National Flood Insurance Act of 1968 that would, among other things, change the premiums for repetitive loss properties. Under these bills, premiums charged for such properties would reflect actuarially based rates if the property owner has refused a buyout, elevation, or other flood mitigation measure from the flood insurance program or FEMA.

- *Improving efforts to increase program participation.* The administration has identified three strategies it intends to use to increase the number of policies in force: expanded marketing, program simplification, and increasing lender compliance. With regard to lender compliance, DHS plans to conduct an education effort with financial regulators about the mandatory flood insurance requirements for properties with mortgages from federally regulated lenders. Additionally, DHS plans to evaluate the program's incentive structure to attract more participation in the program.

- *Conducting a remapping of the nation's flood zones.* Many of the nation's FIRMs are old and outdated, and for some communities FIRMs have never been developed. The administration has initiated a multiyear, $1 billion effort to map all flood zones in the country and reduce the average age of FIRMs from 13 to 6 years.

While we have not fully analyzed these actions, on the basis of a preliminary assessment, they appear to address some of the challenges to the flood insurance program, including two of the key challenges—the program's financial losses and the perceived low level of participation in the program by property owners in flood-prone areas. Reducing subsidies and repetitive loss properties has the potential to help improve the program's financial condition, and increasing program participation would better protect those living in at-risk areas and potentially lower federal cost for disaster assistance after flood events. However, as mentioned earlier, actions such as increasing premiums to subsidized policyholders could cause some of these policyholders to cancel their flood insurance, resulting in lower participation rates and possibly raising federal disaster assistance costs.

The remapping of flood zones could potentially affect both participation rates and the program's financial condition. Remapping could identify additional properties in special flood hazard areas that do not participate in the program and for which DHS will need to undertake efforts to encourage their participation in the program. Further, these additional properties may not meet the program's building standards since they were built before the FIRM that included properties in the special flood hazard area was developed. This could cause the program to offer subsidized insurance rates for these properties, potentially exacerbating the losses to the program resulting from subsidized properties. At the Subcommittee's request, we have begun a review to examine the remapping effort and its effects, and will report on the results later this year.

None of these proposals, however, addresses the need to move the program's current cash-based budgeting for presenting the program's financial condition to accrual-based budgeting. As we noted earlier, the current method of budgeting does not accurately portray the program's financial condition and does not allow the program to create reserves to cover catastrophic losses and be actuarially sound. If a catastrophic loss occurs, this may place the program in the position of again having to borrow substantial sums from the Treasury in order to satisfy all claims losses.

One additional challenge facing the flood insurance program relates to its placement in DHS. As we discussed in a January 2003 report on FEMA's major management challenges and program risks,[10] the placement in DHS of FEMA and programs such as flood insurance that have missions not directly related to security represents a significantly changed environment under which such programs will be conducted in the future. DHS is under tremendous pressure to succeed in its primary mission of securing the homeland, and the possibility exists that the flood insurance program may not receive adequate attention, visibility, and support as part of the department. For the flood insurance program to be fully successful, it will be important for DHS management to ensure that sufficient management capacity and accountability are provided to achieve the objectives of the program. In this regard, the President's fiscal year 2004 budget request notes that additional reforms to the flood insurance program are being deferred until the program is incorporated into DHS. This incorporation has now occurred, and congressional oversight—such as through hearings like this one today—should help to ensure that DHS maintains appropriate focus on managing and improving the flood insurance program and championing the reforms necessary to achieve the program's objectives.

## Contacts and Acknowledgments

For further information on this testimony, please contact JayEtta Z. Hecker at (202) 512-2834 or William O. Jenkins at (202) 512-8777. Individuals making key contributions to this testimony included Christine E. Bonham, Lawrence D. Cluff, Kirk Kiester, John T. McGrail, and John R. Schulze.

[10] U.S. General Accounting Office, *Major Management Challenges and Program Risks: Federal Emergency Management Agency*, GAO-03-113 (Washington, D.C.: January 2003).

# Related GAO Products

*Major Management Challenges and Program Risks: Federal Emergency Management Agency*. GAO-03-113. Washington, D.C.: January 2003.

*Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown*. GAO-02-396. Washington, D.C.: June 21, 2002.

*Flood Insurance: Information on the Financial Condition of the National Flood Insurance Program*. GAO-01-992T. Washington, D.C.: July 19, 2001.

*Flood Insurance: Emerging Opportunity to Better Measure Certain Results of the National Flood Insurance Program*. GAO-01-736T. Washington, D.C.: May 16, 2001.

*Budget Issues: Budgeting for Federal Insurance Programs*. GAO/T-AIMD-98-147. Washington, D.C.: April 23, 1998.

*Budget Issues: Budgeting for Federal Insurance Programs*. GAO/AIMD-97-16. Washington, D.C.: September 30, 1997.